

**OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY
& EXHIBITS**

OF

AISHA L. BUTLER

FEBRUARY 14, 2019



DOCKET NO. 2018-257-WS

**Application of Kiawah Island Utility, Incorporated for Adjustment
of Rates and Charges and Modifications to Certain Terms and
Conditions for the Provision of Water and Sewer Service**

DIRECT TESTIMONY AND EXHIBITS OF

AISHA L. BUTLER

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-257-WS

**IN RE: APPLICATION OF KIAWAH ISLAND UTILITY, INCORPORATED
FOR ADJUSTMENT OF RATES AND CHARGES AND MODIFICATIONS TO
CERTAIN TERMS AND CONDITONS FOR THE PROVISION OF WATER
AND SEWER SERVICE**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Aisha L. Butler. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Audit Department as a Senior Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Finance from the University of South Carolina in May 2013. In June 2014, I began my employment with ORS and since then have participated in various audits dealing with the regulation of telecommunications, electric, and water and wastewater companies.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“PSC” OR “COMMISSION”)?

A. Yes.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

The concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth the findings and recommendations resulting from ORS's examination of the application of Kiawah Island Utility, Inc. ("KIU" or "Company") in this docket, 2018-257-WS. The application was filed on October 25, 2018.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF KIU.

A. ORS's examination of the Company's application consisted of three major steps. In step one, ORS verified that the operating experience, reported by KIU in its application, was supported by KIU's accounting books and records for the twelve months ending December 31, 2017 ("test year"). In the second step, ORS tested the underlying transactions in the books and records for the test year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base, in accordance with generally accepted regulatory principles and prior Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Company's application:

- Audit Exhibit ALB-1: Operating Experience, Operating Margin, and Rate Base for Combined Operations Reflecting ORS's Recommended Increase
- Audit Exhibit ALB-2: Operating Experience, Operating Margin, and Rate Base for Water Operations Reflecting ORS's Recommended Increase
- Audit Exhibit ALB-3: Operating Experience, Operating Margin, and Rate Base for Sewer Operations Reflecting ORS's Recommended Increase
- Audit Exhibit ALB-4: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit ALB-5: Computation of Depreciation and Amortization Expense
- Audit Exhibit ALB-6: Computation of Income Taxes
- Audit Exhibit ALB-7: Computation of Cash Working Capital Allowance
- Audit Exhibit ALB-8: Computation of Interest Expense
- Audit Exhibit ALB-9: Operating Experience, Operating Margin, and Rate Base for Combined, Water, and Sewer Operations Reflecting the Company's Proposed Increase

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of KIU's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT ALB-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit ALB-1 details the Company's operating experience, operating margin, and rate base for combined water and sewer operations for the test year. The exhibit's format

1 is designed to reflect the application per books and ORS's proposed accounting and pro
2 forma adjustments necessary to normalize the results of the Company's test year operations
3 and to reflect ORS's recommended increase.

4 Column (1) details the application per books provided by KIU for the test year. ORS
5 verified total operating revenue of \$7,973,304, total operating expenses of \$6,510,836 and
6 net income for margin of \$1,145,630 to the Company's books and records. The application
7 operating margin of 14.37% was calculated by dividing net income for margin by total
8 operating revenues.

9 Column (2) details ORS's proposed accounting and pro forma adjustments designed
10 to normalize the application per books. An explanation of each adjustment is contained in
11 Audit Exhibit ALB-4.

12 Column (3) details ORS's calculation of a normalized test year for KIU by adding
13 columns (1) and (2). After the accounting and pro forma adjustments, net income for margin
14 of \$877,875 was computed using total operating revenues of \$8,506,845, less total operating
15 expenses of \$7,143,961, less interest expense of \$485,009. An operating margin of 10.32%
16 was computed by dividing net income for margin by total operating revenues.

17 Column (4) details ORS's recommended increase and taxes associated with ORS's
18 recommended increase. An explanation of each adjustment is contained in Audit Exhibit
19 ALB-4.

20 Column (5) details the effect of ORS's recommended increase by adding columns
21 (3) and (4). Net income for margin of \$1,252,935 was computed using total operating
22 revenues of \$8,951,828, less total operating expenses of \$7,257,561, adding customer growth
23 of \$5,037 and amortization of excess deferred income tax of \$38,640, less interest expense

of \$485,009. An operating margin of 14.00% was computed by dividing net income for margin by total operating revenues.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ALB-4.

A. For comparative purposes, ORS's and KIU's adjustments are both presented in Audit Exhibit ALB-4.

Adjustment 1 – Utility Operating Revenues – The ORS Utility Rates Department proposes to normalize water and sewer revenues for the test year. Details of the total utility operating revenues adjustment of \$533,541, water revenue adjustments totaling \$457,045 and the sewer revenue adjustment totaling \$76,496, are set forth in the direct testimony of ORS Utility Rates witness Matthew Schellinger.

Adjustment 2 – Operating Expenses – ORS's total operating expenses adjustment is (\$232,138). This adjustment is comprised of the following operating expense adjustments:

Adjustment 2A – Salaries and Benefits – ORS and KIU propose to annualize salaries and benefits. ORS proposes to annualize salaries and benefits using actual pay stubs, benefit cost and enrollment data, and bonus criteria. ORS computed annualized salaries of \$881,257 and benefits of \$142,972 for total salaries and benefits of \$1,024,229. Per book salaries and benefits were \$798,993, resulting in an ORS adjustment of \$225,236.

ORS's proposed adjustment is \$102,604 less than the Company's proposed adjustment in the application. During the discovery process, the Company made changes to its originally proposed adjustment including updating salary and wage information to correct an inadvertent misstatement and to replace the salary of a previous employee with that of a newly hired employee. The Company also updated the cost of benefits amount to reflect actual employee enrollment instead of the projected enrollment contained in the application.

1 These changes accounted for (\$47,162) of the (\$102,604) adjustment variance. The
2 remaining (\$55,442) variance is due to adjustments made by ORS related to auto allowance
3 expense, bonuses, and 401K expense.

4 In the last rate case (Docket No. 2016-222-WS) ORS adjusted the Company's auto allowance
5 expense from \$16,800 down to \$12,242 based on an analysis performed by ORS's Utility
6 Rates Department. ORS maintains its position in this case yielding a variance of (\$4,558).
7 ORS's Utility Rates Department reviewed the criteria for bonuses earned during the test year
8 and determined that bonus amounts tied to earnings should be removed resulting in allowable
9 bonuses of \$6,644. This amount less the Company's proposed bonus amount of \$41,588
10 yields a variance of (\$34,944).

11 ORS calculated its 401K expense by annualizing the November 2018 401K expense resulting
12 in allowable 401K expense of \$29,043. This amount less the Company's proposed 401K
13 expense of \$44,983 yields a variance of (\$15,940).

14 Adjustment 2B – Purchased Water Costs – ORS and KIU propose to adjust purchased water
15 costs for the 2018 rates charged by St. John's Water Company. ORS verified the support
16 documentation provided by the Company and agrees with the Company's calculation of the
17 \$136,024 adjustment.

18 Adjustment 2C – Tap-In Expenses – ORS and KIU propose to remove tap-in expenses of
19 \$108,250 from operating expenses. An identical amount of tap-in revenue was removed from
20 utility operating revenues as part of ORS adjustment #1.

21 Adjustment 2D – Audit Costs – ORS and KIU propose to reduce accounting and auditing
22 costs by \$21,342 for audit costs that will no longer be incurred going forward. In May 2018,
23 KIU paid off its third party debt which eliminated the requirement of a standalone financial

1 statement audit for KIU. KIU is now included in the audit of the financial statements of its
2 parent company, SouthWest Water Company, and will incur expenses associated with its
3 portion of that audit. KIU provided ORS with a copy of an executed engagement letter with
4 its auditor, PricewaterhouseCoopers, LLP, which detailed KIU's portion of the auditing fee.
5 Adjustment 2E – Legal Fees – ORS and KIU propose to remove \$53,837 in legal fees related
6 to unresolved issues regarding the secondary pipeline.

7 Adjustment 2F – Management Fee – ORS and KIU propose to decrease recoverable
8 management fees by \$338,625. ORS performed a review of the corporate overhead cost pool
9 which included expense testing and a payroll analysis. Based on the review performed, ORS
10 determined the Company's proposed adjustment to be reasonable.

11 Adjustment 2G – Rate Case Expenses – ORS and KIU propose to amortize rate case expenses
12 over a three year period. ORS calculated unamortized rate case expenses of \$59,583 from
13 the prior rate case. The Company submitted \$183,665 of current rate case expenses prior to
14 ORS's January 17, 2019 cutoff date including \$89,500 for estimated future billings. ORS
15 proposes to exclude these estimated expenses as they are not known and measurable.
16 Including the \$384 of rate case expenses removed from the test year in ORS's nonallowable
17 adjustment 2I, ORS calculated allowable current rate case expenses of \$94,549. This amount
18 plus the unamortized prior rate case expenses of \$59,583 yields allowable rate case expenses
19 of \$154,132. This amount, amortized over three years, yields an annual amortization expense
20 of \$51,377, less the Company's \$80,645 per book amount, results in an adjustment of
21 (\$29,268).

22 ORS does not oppose the Company's request to update rate case expenses through the date
23 of the hearing. ORS will review the support documentation the Company provides for the

1 additional rate case expenses and provide the Commission with an updated adjustment as
2 part of ORS's proposed order.

3 Adjustment 2H – Integration and Merger Costs – ORS and the Company propose to remove
4 \$19,528 of integration and merger costs paid during the test year as these costs are not
5 recurring or allowable for ratemaking purposes.

6 Adjustment 2I – Nonallowables – ORS proposes an adjustment of (\$22,548) for expenses
7 ORS identified as non-allowable for ratemaking purposes. ORS removed a \$19,011 expense
8 incurred outside of the test year, \$678 related to the previous rate case, \$384 of expenses that
9 should have been classified as current rate case expense, and \$2,475 associated with
10 sponsorships or expenses with no stated business purpose or itemized receipt. ORS has
11 included the current rate case expenses of \$384 in the calculation of ORS's rate case expense
12 amortization adjustment 2G.

13 Adjustment 3 – Depreciation & Amortization Expense – ORS and KIU propose to annualize
14 depreciation and amortization expense. KIU proposed to annualize depreciation to reflect
15 receipt of liquidated damages related to the second pipeline placed in service during the last
16 rate case. In addition to the liquidated damages, ORS's adjustment accounts for Commission
17 ordered plant adjustments made in prior rate cases and allowable plant additions and
18 retirements since the last rate case. Details of the ORS depreciation expense adjustment are
19 shown in Audit Exhibit ALB-5. ORS's total depreciation expense amounted to \$681,263,
20 less the per book amount of \$695,384, for a total adjustment of (\$14,121).

21 Adjustment 4 – Amortization Expense – Sludge & Tank Painting – ORS's total amortization
22 expense adjustment is \$68,601. This adjustment is comprised of the following amortization
23 expense adjustments:

1 Adjustment 4A – Amortization of Sludge Removal Costs – ORS and KIU propose an
2 adjustment of \$47,693 to reflect the three-year amortization of known and measurable sludge
3 removal costs incurred in 2018.

4 Adjustment 4B – Amortization of Tank Painting Costs – ORS and KIU propose an
5 adjustment to reflect the five-year amortization of known and measurable tank painting costs
6 incurred in 2018. The Company's proposed adjustment is based on total tank painting costs
7 of \$101,923 which includes an estimate for expenses that were not available at the time the
8 application was filed. ORS received the actual invoices for the estimated expenses bringing
9 total allowable tank painting costs to \$104,541. This amount amortized over five years yields
10 the ORS adjustment of \$20,908.

11 Adjustment 5 – Amortization of Water Rights – Impact Fees – ORS proposes an adjustment
12 of \$132 to correctly state the amortization of water rights.

13 Adjustment 6 – Utility Regulatory Assessment Fees – ORS's total utility regulatory
14 assessment fees adjustment is \$40,133. This adjustment is comprised of the following utility
15 regulatory assessment fee adjustments:

16 Adjustment 6A – Gross Receipts Tax Reclassification – ORS and KIU propose to increase
17 utility regulatory assessment fees by \$36,613 to reclassify gross receipts payments that were
18 recorded in Other Taxes and Licenses.

19 Adjustment 6B – Gross Receipts Tax – ORS and KIU propose to adjust gross receipts taxes
20 for accounting and pro forma adjustments made to operating revenues. To compute this
21 adjustment, a PSC/ORS factor of .004717724 was applied to the revenues in ORS adjustment
22 #1. ORS proposes to increase gross receipts taxes by \$3,520.

1 Adjustment 7 – Property Taxes – ORS and KIU propose to increase property taxes for
2 increases in plant in service. ORS calculated pro forma property taxes of \$522,744 as
3 compared to per book property taxes of \$297,289, for an adjustment of \$225,455. ORS
4 included all allowable plant through ORS’s cutoff date of January 17, 2019 in the calculation
5 of the adjustment and allocated the property tax increase between water and sewer operations
6 using the actual increase in water and sewer plant in service.

7 Adjustment 8 – Payroll Taxes – ORS and KIU propose to adjust for payroll taxes associated
8 with the adjusted test year salaries. ORS divided test year payroll taxes by test year salaries
9 to generate an effective payroll tax rate of 8.56452%. ORS applied the effective payroll tax
10 rate to applicable salaries of \$876,670 to calculate pro forma payroll taxes of \$75,083. This
11 amount less per book payroll taxes of \$55,767 results in ORS’s proposed increase to payroll
12 taxes of \$19,316.

13 Adjustment 9 – Other Taxes and Licenses – ORS’s total other taxes and licenses adjustment
14 is \$24,434. This adjustment is comprised of the following other taxes and licenses
15 adjustments:

16 Adjustment 9A – Gross Receipts Reclassification – ORS and KIU propose an adjustment of
17 (\$18,307) to reflect the removal of gross receipts tax partially recorded in other taxes and
18 licenses.

19 Adjustment 9B – Corporate License Fee Reclassification – ORS and KIU propose an
20 adjustment of \$40,552 to properly record the test year corporate license fee inadvertently
21 recorded in state income tax expense.

22 Adjustment 9C – Corporate License Fees – ORS and KIU propose to adjust for increases in
23 corporate license fees due to changes in pro forma revenue and pro forma property value.

1 The South Carolina Department of Revenue (“SCDOR”) factor of 0.003 was used to
2 compute the increase in license fees due to the increase in pro forma revenues. A factor of
3 0.001 was used to compute the increase in license fees due to the net plant increase. ORS
4 allocated the increases in license fees to water and sewer operations based on the actual
5 increases in pro forma revenues of \$533,541 and the actual net plant increase of \$589,284
6 for water and sewer operations. ORS proposes to increase corporate license fees by \$2,189.

7 Adjustment 10 – State Income Taxes – ORS and KIU propose to adjust state income taxes
8 after accounting and pro forma adjustments using the 5% state income tax rate. ORS
9 proposes to increase state income taxes by \$30,093. Details of ORS’s computation of state
10 income taxes are shown on ALB-6.

11 Adjustment 11 – Federal Income Taxes – ORS and KIU propose to adjust federal income
12 taxes after accounting and pro forma adjustments using the 21% federal income tax rate.
13 ORS proposes to decrease federal income taxes by \$125,352. Details of ORS’s computation
14 of federal income taxes are shown on ALB-6.

15 Adjustment 12 – Deferred Federal Income Taxes – ORS and KIU propose to remove test
16 year deferred federal income tax expense of \$567,125 as it should not be directly included in
17 the calculation of net income for margin.

18 Adjustment 13 – Deferred State Income Taxes – ORS and KIU propose to remove test year
19 deferred state income tax expense of \$29,447 as it should not be directly included in the
20 calculation of net income for margin.

21 Adjustment 14 – Other Operating Income – ORS and KIU propose to reverse the gain on
22 disposition of property of \$524.

1 Adjustment 15 – Interest Expense – ORS and KIU propose to adjust interest expense using
2 interest synchronization. ORS calculated its adjustment using an allowable rate base of
3 \$21,225,788, a 50% debt and 50% equity capital structure, and a 4.57% weighted average
4 cost of debt. ORS applied the weighted average cost of debt to the portion of the Company’s
5 rate base funded by debt to generate synchronized interest expense of \$485,009. This amount
6 less the Company’s per book interest expense of \$317,362 yields an adjustment of \$167,647.

7 Adjustment 16 – Gross Plant In Service – ORS proposes to adjust gross plant in service as
8 of December 31, 2018. ORS calculated gross plant in service of \$51,719,482 less the
9 application per book amount of \$51,814,468 yielding an adjustment of (\$94,986). Details of
10 ORS’s proposed gross plant in service are shown in Audit Exhibit ALB-5.

11 Adjustment 17 – Accumulated Depreciation – ORS proposes to adjust accumulated
12 depreciation by (\$949,398) as of December 31, 2018. Audit Exhibit ALB-5 details ORS’s
13 calculation of Accumulated Depreciation.

14 Adjustment 18 – Accumulated Amortization of CIAC – ORS proposes to adjust the
15 Accumulated Amortization of CIAC by \$386,653 as of December 31, 2018.

16 Adjustment 19 – Cash Working Capital – ORS proposes to adjust for cash working capital
17 after accounting and pro forma adjustments. ORS used a 45 day allowance or 12.50% of
18 operating expenses for the cash working capital adjustment. ORS proposes to increase cash
19 working capital by \$666,265. Details of this adjustment are included in Audit Exhibit ALB-
20 7.

21 Adjustment 20 – Accumulated Deferred Income Taxes (“ADIT”) – ORS proposes to adjust
22 rate base by (\$158,270) to reflect an increase in ADIT based on a true-up analysis performed
23 by the Company during the ORS discovery process.

1 Adjustment 21 – Excess Deferred Income Tax Liability – ORS proposes an adjustment of
2 (\$61,576) to the Company’s rate base to reflect the excess deferred income tax liability
3 resulting from the lower federal tax rate due to the Tax Cuts and Jobs Act (“TCJA”). This
4 adjustment reflects the calculation of the Company’s total excess deferred income tax
5 balance of (\$561,188), of which (\$571,442) is related to protected assets and \$10,254 is
6 related to unprotected assets. Subtracting one year’s worth of amortization of \$29,548
7 (\$38,640 grossed up for taxes) as calculated in ORS Adjustment 27 results in an excess
8 deferred income tax liability of (\$531,640). This amount less the (\$470,064) per book amount
9 yields the adjustment of (\$61,576). This adjustment is discussed in further detail in the
10 testimony of ORS Utility Rates witness, Matthew Schellinger, and the amounts, grossed up
11 for taxes, are reflected in Exhibit MPS-4.

12 Adjustment 22 – Utility Operating Revenues – As calculated by the ORS Utility Rates
13 Department, ORS’s recommended rate increase would produce total additional revenues of
14 \$444,983, comprised of \$341,935 for water operations and \$103,048 for sewer operations.
15 Details of these adjustments are shown in the direct testimony of ORS Utility Rates witness
16 Matthew Schellinger.

17 Adjustment 23 – Gross Receipts – ORS and KIU propose to adjust gross receipts for the
18 proposed increase. ORS proposes to adjust gross receipts for ORS’s recommended rate
19 increase using a PSC/ORS factor of .004717724. ORS proposes to increase gross receipts
20 taxes by \$2,099.

21 Adjustment 24 – Other Taxes and Licenses – ORS and KIU propose to adjust corporate
22 license fees for the proposed increase. ORS proposes to adjust corporate license fees for

1 ORS's recommended increase using the SCDOR factor of .003. ORS proposes to increase
2 Other Taxes and Licenses by \$1,335.

3 Adjustment 25 – State Income Taxes – ORS and KIU propose to adjust state income taxes
4 for the proposed increase. ORS proposes to adjust state income taxes for ORS's
5 recommended increase using the 5% state income tax rate. ORS proposes to increase state
6 income taxes by \$22,077. Details of ORS's computation of state income taxes are shown in
7 ALB-6.

8 Adjustment 26 – Federal Income Taxes – ORS and KIU propose to adjust federal income
9 taxes for the proposed increase. ORS proposes to adjust federal income taxes for ORS's
10 recommended increase using the 21% federal income tax rate. ORS proposes to increase
11 federal income taxes by \$88,089. Details of ORS's computation of federal income taxes are
12 shown in ALB-6.

13 Adjustment 27 – Customer Growth – ORS and KIU propose to adjust customer growth for
14 the proposed increase. ORS proposes to adjust customer growth for total operating income
15 after ORS's recommended increase using the ORS Utility Rates Department computed
16 growth factors of 0.3418% for water and 0.1697% for sewer, which are reflected in Exhibit
17 MPS-3. These factors were applied to the total operating income of \$1,256,275 for water and
18 \$437,992 for sewer for a total customer growth adjustment of \$5,037.

19 Adjustment 28 – Amortization of Excess Deferred Income Taxes – ORS and KIU propose
20 an adjustment to reflect the amortization of the excess deferred income tax liability due to
21 the TCJA. ORS's adjustment of \$38,640 reflects the amortization of the \$561,188 total
22 excess deferred income taxes calculated in ORS Adjustment 21, grossed up for taxes. This

adjustment is discussed in further detail in the testimony of ORS Utility Rates witness, Matthew Schellinger, and reflected in Exhibit MPS-4.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit ALB-5 details the computation of ORS's depreciation and amortization expense adjustments. Audit Exhibit ALB-6 details the computation of income taxes. Audit Exhibit ALB-7 details the calculation of the cash working capital allowance and Audit Exhibit ALB-8 details the calculation of interest expense. Audit Exhibit ALB-9 details the Company's operating experience, operating margin, and rate base for combined, water, and sewer operations for the test year. The exhibit's format is designed to reflect the application per books and ORS's proposed accounting and pro forma adjustments necessary to normalize the results of the Company's test year operations and to reflect the Company's proposed increase as recalculated by ORS.

Q. PLEASE EXPLAIN ORS'S RECOMMENDATION RELATED TO COMMISSION ORDERED ACCOUNTING ADJUSTMENTS?

A. ORS recommends several adjustments to the Company's continuing property records for accounting adjustments ordered by the Commission but not recorded by KIUI in its balance sheet. ORS recommends the Commission require KIUI to properly reflect all Commission approved accounting adjustments in the books and records of the Company.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Combined Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) ORS Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,973,304	533,541 (1)	8,506,845	444,983 (22)	8,951,828
<u>Total Operating Revenues</u>	<u>7,973,304</u>	<u>533,541</u>	<u>8,506,845</u>	<u>444,983</u>	<u>8,951,828</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,562,259	(232,138) (2)	5,330,121	0	5,330,121
Depreciation & Amortization	695,384	(14,121) (3)	681,263	0	681,263
Amortization Expense - Sludge & Tank Painting	0	68,601 (4)	68,601	0	68,601
Amortization of Water Rights - Impact Fees	47,715	132 (5)	47,847	0	47,847
Utility Regulatory Assessment Fees	0	40,133 (6)	40,133	2,099 (23)	42,232
Property Taxes	297,289	225,455 (7)	522,744	0	522,744
Payroll Taxes	55,767	19,316 (8)	75,083	0	75,083
Other Taxes and Licenses	61,890	24,434 (9)	86,324	1,335 (24)	87,659
State Income Taxes	28,393	30,093 (10)	58,486	22,077 (25)	80,563
Federal Income Taxes	358,711	(125,352) (11)	233,359	88,089 (26)	321,448
Deferred Federal Income Taxes	(567,125)	567,125 (12)	0	0	0
Deferred State Income Taxes	(29,447)	29,447 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,510,836</u>	<u>633,125</u>	<u>7,143,961</u>	<u>113,600</u>	<u>7,257,561</u>
<u>Total Operating Income</u>	<u>1,462,468</u>	<u>(99,584)</u>	<u>1,362,884</u>	<u>331,383</u>	<u>1,694,267</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	524	(524) (14)	0	0	0
Add: Customer Growth	0	0	0	5,037 (27)	5,037
Add: Amortization of Excess Deferred Income Tax	0	0	0	38,640 (28)	38,640
<u>Net Operating Income</u>	<u>1,462,992</u>	<u>(100,108)</u>	<u>1,362,884</u>	<u>375,060</u>	<u>1,737,944</u>
Less: Interest Expense	317,362	167,647 (15)	485,009	0	485,009
<u>Net Income for Margin</u>	<u>1,145,630</u>	<u>(267,755)</u>	<u>877,875</u>	<u>375,060</u>	<u>1,252,935</u>
<u>Operating Margin</u>	<u>14.37%</u>		<u>10.32%</u>		<u>14.00%</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	51,814,468	(94,986) (16)	51,719,482	0	51,719,482
Accumulated Depreciation	(19,448,388)	(949,398) (17)	(20,397,786)	0	(20,397,786)
Net Plant in Service	32,366,080	(1,044,384)	31,321,696	0	31,321,696
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	7,541,327	386,653 (18)	7,927,980	0	7,927,980
Construction Work in Progress	16,424	0	16,424	0	16,424
Cash Working Capital	0	666,265 (19)	666,265	0	666,265
Prepayments (ASR Inv.)	167,807	0	167,807	0	167,807
Accumulated Deferred Income Taxes	(816,452)	(158,270) (20)	(974,722)	0	(974,722)
Excess Deferred Income Tax Liability	(470,064)	(61,576) (21)	(531,640)	0	(531,640)
<u>Total Rate Base</u>	<u>21,437,100</u>	<u>(211,312)</u>	<u>21,225,788</u>	<u>0</u>	<u>21,225,788</u>

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Water Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) ORS Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	6,149,764	457,045 (1)	6,606,809	341,935 (22)	6,948,744
<u>Total Operating Revenues</u>	<u>6,149,764</u>	<u>457,045</u>	<u>6,606,809</u>	<u>341,935</u>	<u>6,948,744</u>
<u>Operating Expenses:</u>					
Operating Expenses	4,413,998	(81,507) (2)	4,332,491	0	4,332,491
Depreciation & Amortization	472,084	(5,917) (3)	466,167	0	466,167
Amortization Expense - Sludge & Tank Painting	0	20,908 (4)	20,908	0	20,908
Amortization of Water Rights - Impact Fees	47,715	132 (5)	47,847	0	47,847
Utility Regulatory Assessment Fees	0	31,169 (6)	31,169	1,613 (23)	32,782
Property Taxes	175,595	227,256 (7)	402,851	0	402,851
Payroll Taxes	32,939	11,410 (8)	44,349	0	44,349
Other Taxes and Licenses	36,556	15,202 (9)	51,758	1,026 (24)	52,784
State Income Taxes	21,957	19,653 (10)	41,610	16,965 (25)	58,575
Federal Income Taxes	277,400	(111,374) (11)	166,026	67,689 (26)	233,715
Deferred Federal Income Taxes	(438,572)	438,572 (12)	0	0	0
Deferred State Income Taxes	(22,772)	22,772 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>5,016,900</u>	<u>588,276</u>	<u>5,605,176</u>	<u>87,293</u>	<u>5,692,469</u>
<u>Total Operating Income</u>	<u>1,132,864</u>	<u>(131,231)</u>	<u>1,001,633</u>	<u>254,642</u>	<u>1,256,275</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	(8,634)	8,634 (14)	0	0	0
Add: Customer Growth	0	0	0	4,294 (27)	4,294
Add: Amortization of Excess Deferred Income Tax	0	0	0	29,881 (28)	29,881
<u>Net Operating Income</u>	<u>1,124,230</u>	<u>(122,597)</u>	<u>1,001,633</u>	<u>288,817</u>	<u>1,290,450</u>
Less: Interest Expense	187,450	189,611 (15)	377,061	0	377,061
<u>Net Income for Margin</u>	<u>936,780</u>	<u>(312,208)</u>	<u>624,572</u>	<u>288,817</u>	<u>913,389</u>
<u>Operating Margin</u>	<u>15.23%</u>		<u>9.45%</u>		<u>13.14%</u>
<u>Original Cost Rate Base: Water</u>					
Gross Plant in Service	30,437,390	(86,219) (16)	30,351,171	0	30,351,171
Accumulated Depreciation	(9,483,623)	(556,037) (17)	(10,039,660)	0	(10,039,660)
Net Plant in Service	20,953,767	(642,256)	20,311,511	0	20,311,511
Contributions in Aid of Construction (CIAC)	(5,860,751)	0	(5,860,751)	0	(5,860,751)
Accumulated Amortization of CIAC	2,367,257	130,470 (18)	2,497,727	0	2,497,727
Construction Work in Progress	8,587	0	8,587	0	8,587
Cash Working Capital	0	541,561 (19)	541,561	0	541,561
Prepayments (ASR Inv.)	167,807	0	167,807	0	167,807
Accumulated Deferred Income Taxes	(631,362)	(122,390) (20)	(753,752)	0	(753,752)
Excess Deferred Income Tax Liability	(363,500)	(47,617) (21)	(411,117)	0	(411,117)
<u>Total Rate Base</u>	<u>16,641,805</u>	<u>(140,232)</u>	<u>16,501,573</u>	<u>0</u>	<u>16,501,573</u>

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Sewer Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) ORS Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	1,823,540	76,496 (1)	1,900,036	103,048 (22)	2,003,084
<u>Total Operating Revenues</u>	<u>1,823,540</u>	<u>76,496</u>	<u>1,900,036</u>	<u>103,048</u>	<u>2,003,084</u>
<u>Operating Expenses:</u>					
Operating Expenses	1,148,261	(150,631) (2)	997,630	0	997,630
Depreciation & Amortization	223,300	(8,204) (3)	215,096	0	215,096
Amortization Expense - Sludge & Tank Painting	0	47,693 (4)	47,693	0	47,693
Amortization of Water Rights - Impact Fees	0	0 (5)	0	0	0
Utility Regulatory Assessment Fees	0	8,964 (6)	8,964	486 (23)	9,450
Property Taxes	121,694	(1,801) (7)	119,893	0	119,893
Payroll Taxes	22,828	7,906 (8)	30,734	0	30,734
Other Taxes and Licenses	25,334	9,232 (9)	34,566	309 (24)	34,875
State Income Taxes	6,436	10,440 (10)	16,876	5,112 (25)	21,988
Federal Income Taxes	81,311	(13,978) (11)	67,333	20,400 (26)	87,733
Deferred Federal Income Taxes	(128,553)	128,553 (12)	0	0	0
Deferred State Income Taxes	(6,675)	6,675 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>1,493,936</u>	<u>44,849</u>	<u>1,538,785</u>	<u>26,307</u>	<u>1,565,092</u>
<u>Total Operating Income</u>	<u>329,604</u>	<u>31,647</u>	<u>361,251</u>	<u>76,741</u>	<u>437,992</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	9,158	(9,158) (14)	0	0	0
Add: Customer Growth	0	0	0	743 (27)	743
Add: Amortization of Excess Deferred Income Tax	0	0	0	8,759 (28)	8,759
<u>Net Operating Income</u>	<u>338,762</u>	<u>22,489</u>	<u>361,251</u>	<u>86,243</u>	<u>447,494</u>
Less: Interest Expense	129,912	(21,964) (15)	107,948	0	107,948
<u>Net Income for Margin</u>	<u>208,850</u>	<u>44,453</u>	<u>253,303</u>	<u>86,243</u>	<u>339,546</u>
<u>Operating Margin</u>	<u>11.45%</u>		<u>13.33%</u>		<u>16.95%</u>
<u>Original Cost Rate Base: Sewer</u>					
Gross Plant in Service	21,377,078	(8,767) (16)	21,368,311	0	21,368,311
Accumulated Depreciation	(9,964,765)	(393,361) (17)	(10,358,126)	0	(10,358,126)
Net Plant in Service	11,412,313	(402,128)	11,010,185	0	11,010,185
Contributions in Aid of Construction (CIAC)	(11,507,271)	0	(11,507,271)	0	(11,507,271)
Accumulated Amortization of CIAC	5,174,070	256,183 (18)	5,430,253	0	5,430,253
Construction Work in Progress	7,837	0	7,837	0	7,837
Cash Working Capital	0	124,704 (19)	124,704	0	124,704
Prepayments (ASR Inv.)	0	0	0	0	0
Accumulated Deferred Income Taxes	(185,090)	(35,880) (20)	(220,970)	0	(220,970)
Excess Deferred Income Tax Liability	(106,564)	(13,959) (21)	(120,523)	0	(120,523)
<u>Total Rate Base</u>	<u>4,795,295</u>	<u>(71,080)</u>	<u>4,724,215</u>	<u>0</u>	<u>4,724,215</u>

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS Adj. # Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>				
(1)	<u>Utility Operating Revenues</u>			
(1)	(A) To adjust revenues to reflect the present rates as calculated by the ORS Utility Rates Department.			
	Per ORS	641,791	521,045	120,746
	Per KIU	648,385	518,661	129,724
(2)	(B) To remove tap-in revenue.			
	Per ORS	(108,250)	(64,000)	(44,250)
	Per KIU	(108,250)	(64,000)	(44,250)
(1)	<u>Total Utility Operating Revenues Adjustment</u>			
	Per ORS	533,541	457,045	76,496
	Per KIU	540,135	454,661	85,474
(2)	<u>Operating Expenses</u>			
(3)	(A) To annualize test year salaries and benefits based on payroll information. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	225,236	133,047	92,189
	Per KIU	327,840	193,693	134,147
(4)	(B) To adjust purchased water costs to reflect the 2018 rate charged by St. John's Water Company.			
	Per ORS	136,024	136,024	0
	Per KIU	136,024	136,024	0
(5)	(C) To remove tap-in expenses.			
	Per ORS	(108,250)	(64,000)	(44,250)
	Per KIU	(108,250)	(64,000)	(44,250)
(6)	(D) To adjust accounting costs for nonrecurring audit costs. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	(21,342)	(12,607)	(8,735)
	Per KIU	(21,342)	(12,607)	(8,735)

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS <u>Adj. #</u> <u>Adj. #</u>			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
		Description			
(7)	(E)	To remove legal fees for unresolved 2nd pipeline issue recorded in contract services. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	(53,837)	(31,802)	(22,035)
		Per KIU	(53,837)	(31,802)	(22,035)
(8)	(F)	To adjust for SWWC management fees allocated to KIU based on a 3-factor overhead allocation methodology. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	(338,625)	(200,026)	(138,599)
		Per KIU	(338,625)	(200,026)	(138,599)
(9)	(G)	To adjust rate case expenses to reflect the amortization of current rate case expenses and the unamortized portion of rate case expenses approved in the previous rate case. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	(29,268)	(17,289)	(11,979)
		Per KIU	24,355	14,386	9,969
(10)	(H)	To remove integration and merger costs paid during the test year.			
		Per ORS	(19,528)	(11,535)	(7,993)
		Per KIU	(19,528)	(11,535)	(7,993)
	(I)	To adjust for nonallowable expenses recorded during the test year. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	(22,548)	(13,319)	(9,229)
		Per KIU	0	0	0
(2)		<u>Total Operating Expenses Adjustment</u>			
		Total Per ORS	(232,138)	(81,507)	(150,631)
		Total Per KIU	(53,363)	24,133	(77,496)

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS Adj. # Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(11) (3)	<u>Depreciation & Amortization Expense Adjustment</u>			
	To adjust depreciation and amortization for receipt of liquidated damages related to the 2nd pipeline and other adjustments to plant in service.			
	Per ORS	(14,121)	(5,917)	(8,204)
	Per KIU	(4,810)	(4,810)	0
(12) (4)	<u>Amortization Expense - Sludge & Tank Painting</u>			
(A)	To amortize known and measurable sludge removal costs incurred in 2018 over 3 years.			
	Per ORS	47,693	0	47,693
	Per KIU	47,693	0	47,693
(B)	To amortize known and measurable tank painting costs incurred in 2018 over 5 years.			
	Per ORS	20,908	20,908	0
	Per KIU	20,385	20,385	0
(12) (4)	<u>Total Amortization Expense - Sludge & Tank Painting</u>			
	Total Per ORS	68,601	20,908	47,693
	Total Per KIU	68,078	20,385	47,693
(5)	<u>Amortization of Water Rights - Impact Fees</u>			
	To adjust the amortization of water rights - impact fees.			
	Per ORS	132	132	0
	Per KIU	0	0	0
(6)	<u>Utility Regulatory Assessment Fees</u>			
(13) (A)	To reclass test year gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	36,613	21,627	14,986
	Per KIU	36,613	21,627	14,986

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS Adj. # Adj. #			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
		Description			
(14)	(B)	To adjust gross receipts tax after the accounting and pro forma adjustments using a factor of .004717724.			
		Per ORS	3,520	9,542	(6,022)
		Per KIU	7,212	4,260	2,952
(6)		<u>Total Utility Regulatory Assessment Fees</u>			
		Total Per ORS	40,133	31,169	8,964
		Total Per KIU	43,825	25,887	17,938
(15)	(7)	<u>Property Taxes</u>			
		To adjust property taxes for expected increase.			
		Per ORS	225,455	227,256	(1,801)
		Per KIU	237,828	140,485	97,343
(16)	(8)	<u>Payroll Tax</u>			
		To increase payroll tax for salary increases. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	19,316	11,410	7,906
		Per KIU	15,352	9,068	6,284
(9)		<u>Other Taxes and Licenses</u>			
(17)	(A)	To remove gross receipts tax partially recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	(18,307)	(10,814)	(7,493)
		Per KIU	(18,307)	(10,814)	(7,493)
(18)	(B)	To reclass corporate license fee recorded in SC income tax expense. Allocated between water and sewer - 59.07% and 40.93%.			
		Per ORS	40,552	23,954	16,598
		Per KIU	40,552	23,954	16,598

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS Adj. # Adj. #			\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
		Description			
(19)	(C)	To increase corporate license fee due to increase in pro forma revenue (.003) and increase in property value (.001).			
		Per ORS	2,189	2,062	127
		Per KIU	7,027	4,151	2,876
(9)		<u>Total Other Taxes and Licenses</u>			
		Total Per ORS	24,434	15,202	9,232
		Total Per KIU	29,272	17,291	11,981
(20)	(10)	<u>State Income Taxes</u>			
		To adjust state income taxes on pro forma income at 5%. See Audit Exhibit ALB-6.			
		Per ORS	30,093	19,653	10,440
		Per KIU	19,195	22,778	(3,583)
(20)	(11)	<u>Federal Income Taxes</u>			
		To adjust federal income taxes on pro forma income at 21%. See Audit Exhibit ALB-6.			
		Per ORS	(125,352)	(111,374)	(13,978)
		Per KIU	(168,833)	(98,907)	(69,926)
(21)	(12)	<u>Deferred Federal Income Taxes</u>			
		To remove deferred federal income tax expense.			
		Per ORS	567,125	438,572	128,553
		Per KIU	567,125	438,572	128,553
(21)	(13)	<u>Deferred State Income Taxes</u>			
		To remove deferred state income tax expense.			
		Per ORS	29,447	22,772	6,675
		Per KIU	29,447	22,772	6,675

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS				
Adj. #	Adj. #		\$	\$
		Description	Combined	Water
			Operations	Operations
				Sewer
				Operations
<hr/>				
(22)	(14)	<u>Other Operating Income</u>		
		To reverse gain on disposition of property.		
		Total Per ORS	(524)	8,634
				(9,158)
		Total Per KIU	(524)	8,634
				(9,158)
<hr/>				
(23)	(15)	<u>Interest Expense</u>		
		To synchronize interest expense with the portion of rate base financed by debt. See Audit Exhibit ALB-8.		
		Per ORS	167,647	189,611
				(21,964)
		Per KIU	187,821	110,947
				76,874
<hr/>				
(16)		<u>Gross Plant In Service</u>		
		To adjust gross plant in service as of 12/31/18. See Audit Exhibit ALB-5.		
		Per ORS	(94,986)	(86,219)
				(8,767)
		Per KIU	0	0
				0
<hr/>				
(17)		<u>Accumulated Depreciation</u>		
		To adjust accumulated depreciation as of 12/31/18. See Audit Exhibit ALB-5.		
		Per ORS	(949,398)	(556,037)
				(393,361)
		Per KIU	0	0
				0
<hr/>				
(18)		<u>Amortization of Contributions In Aid Of Construction</u>		
		To adjust amortization of contributions in aid of construction as of 12/31/18. See Audit Exhibit ALB-5.		
		Per ORS	386,653	130,470
				256,183
		Per KIU	0	0
				0
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Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU ORS Adj. # Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(19)	<u>Cash Working Capital</u>			
	To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit ALB-7.			
	Per ORS	666,265	541,561	124,704
	Per KIU	0	0	0
(20)	<u>Accumulated Deferred Income Taxes</u>			
	To adjust rate base to reflect an increase in the accumulated deferred income tax liability.			
	Per ORS	(158,270)	(122,390)	(35,880)
	Per KIU	0	0	0
(21)	<u>Excess Deferred Income Tax Liability</u>			
	To adjust rate base for the creation of an excess deferred income tax liability resulting from lower federal tax rates due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.			
	Per ORS	(61,576)	(47,617)	(13,959)
	Per KIU	0	0	0
<u>Proposed Increase</u>				
(24) (22)	<u>Utility Operating Revenues Adjustment</u>			
	To adjust revenues to reflect the rates recommended by ORS. This adjustment is calculated by the ORS Utility Rates Department.			
	Per ORS	444,983	341,935	103,048
	Per KIU	289,958	100,629	189,329
(25) (23)	<u>Utility Regulatory Assessment Fees</u>			
	To increase gross receipts associated with ORS's recommended increase using a factor of .004717724.			
	Per ORS	2,099	1,613	486
	Per KIU	3,895	3,002	893

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2017

KIU	ORS		\$	\$	\$
Adj. #	Adj. #	Description	Combined	Water	Sewer
			Operations	Operations	Operations
(26)	(24)	<u>Other Taxes and Licenses</u>			
		To increase corporate license fee associated with the ORS's recommended increase.			
		Per ORS	1,335	1,026	309
		Per KIU	2,477	1,909	568
(27)	(25)	<u>State Income Taxes</u>			
		To adjust state income taxes for ORS's recommended increase using a 5% tax rate. See Audit Exhibit ALB-4.			
		Per ORS	22,077	16,965	5,112
		Per KIU	40,962	31,569	9,393
(27)	(26)	<u>Federal Income Taxes</u>			
		To adjust federal income taxes for ORS's recommended increase using a 21% tax rate. See Audit Exhibit ALB-4.			
		Per ORS	88,089	67,689	20,400
		Per KIU	163,441	125,961	37,480
(28)	(27)	<u>Customer Growth Adjustment</u>			
		To adjust for customer growth based on the total operating income after ORS's recommended increase. The customer growth factors are .3418% for water and .1697% for sewer.			
		Per ORS	5,037	4,294	743
		Per KIU	14,401	12,188	2,213
(29)	(28)	<u>Amortization of Excess Deferred Income Tax</u>			
		To increase revenue by annual amortization of excess deferred income taxes due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.			
		Per ORS	38,640	29,881	8,759
		Per KIU	10,469	0	0

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2017

	<u>Combined Operations</u> \$	<u>Water Operations</u> \$	<u>Sewer Operations</u> \$
<u>Plant in Service</u>			
Land and Land Rights	5,268,252	3,468,252	1,800,000
Structures & Improvements	15,910,054	12,656,927	3,253,127
Wells	161,457	161,457	0
Power Generation Equipment	49,056	0	49,056
Collections Sewers Force	11,507,271	0	11,507,271
Collections Sewers Gravity	4,699,704	0	4,699,704
Pumping Equipment	1,183,748	1,029,823	153,925
Aquifer Storage & Recovery (ASR) Equipment	1,264,087	1,264,087	0
Mains	8,758,957	8,758,957	0
Meter & Meter Installation	110,986	110,986	0
Fire Hydrants	284,840	284,840	0
Source & Supply	389,785	389,785	0
Water Treatment	1,378	1,378	0
Transmission & Distribution	457,784	457,784	0
Other Plant & Miscellaneous Equipment	56,055	0	56,055
Office Furniture & Equipment	210,001	106,517	103,484
Transportation Equipment	375,738	184,219	191,519
Disallowed Assets	(891,660)	(445,830)	(445,830)
Impact Fees (Water Rights)	1,921,989	1,921,989	0
	<u>51,719,482</u>	<u>30,351,171</u>	<u>21,368,311</u>
Gross Plant in Service	<u>51,719,482</u>	<u>30,351,171</u>	<u>21,368,311</u>
Contributions in Aid of Construction (CIAC)	(17,368,022)	(5,860,751)	(11,507,271)
<u>Depreciation Expense</u>			
Land and Land Rights	0	0	0
Structures & Improvements	363,168	273,641	89,527
Wells	5,131	5,131	0
Power Generation Equipment	2,351	0	2,351
Collections Sewers Force	255,717	0	255,717
Collections Sewers Gravity	105,163	0	105,163
Pumping Equipment	28,521	26,232	2,289
Aquifer Storage & Recovery (ASR) Equipment	27,161	27,161	0
Mains	194,486	194,486	0
Meter & Meter Installation	2,252	2,252	0
Fire Hydrants	6,330	6,330	0
Source & Supply	38,979	38,979	0
Water Treatment	276	276	0
Transmission & Distribution	9,913	9,913	0
Other Plant & Miscellaneous Equipment	3,761	0	3,761
Office Furniture & Equipment	6,902	3,451	3,451
Transportation Equipment	36,922	18,461	18,461
Disallowed Assets	(19,814)	(9,907)	(9,907)
	<u>1,067,219</u>	<u>596,406</u>	<u>470,813</u>
Depreciation Expense	<u>1,067,219</u>	<u>596,406</u>	<u>470,813</u>
CIAC Amortization Expense	(385,956)	(130,239)	(255,717)
	<u>(385,956)</u>	<u>(130,239)</u>	<u>(255,717)</u>
ORS Depreciation & Amortization Expense	<u>681,263</u>	<u>466,167</u>	<u>215,096</u>
Depreciation & Amortization Expense - Per Books	<u>695,384</u>	<u>472,084</u>	<u>223,300</u>
ORS Depreciation & Amortization Expense Adjustment #3	<u>(14,121)</u>	<u>(5,917)</u>	<u>(8,204)</u>

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2017

	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
<u>Accumulated Depreciation</u>			
Land and Land Rights	0	0	0
Structures & Improvements	(4,337,148)	(2,407,086)	(1,930,062)
Wells	(28,165)	(28,165)	0
Power Generation Equipment	(38,317)	0	(38,317)
Collections Sewers Force	(5,430,253)	0	(5,430,253)
Collections Sewers Gravity	(2,842,524)	0	(2,842,524)
Pumping Equipment	(768,256)	(637,740)	(130,516)
Aquifer Storage & Recovery (ASR) Equipment	(419,528)	(419,528)	0
Mains	(4,289,893)	(4,289,893)	0
Meter & Meter Installation	(86,633)	(86,633)	0
Fire Hydrants	(169,487)	(169,487)	0
Source & Supply	(74,709)	(74,709)	0
Water Treatment	(551)	(551)	0
Transmission & Distribution	(392,773)	(392,773)	0
Other Plant & Miscellaneous Equipment	(48,982)	0	(48,982)
Office Furniture & Equipment	(189,293)	(96,163)	(93,130)
Transportation Equipment	(226,296)	(109,498)	(116,798)
Disallowed Assets	544,912	272,456	272,456
Impact Fees (Water Rights)	(1,599,890)	(1,599,890)	0
	<u>(20,397,786)</u>	<u>(10,039,660)</u>	<u>(10,358,126)</u>
Accumulated Depreciation - Including Accumulated Amortization of CIAC			
	<u>(20,397,786)</u>	<u>(10,039,660)</u>	<u>(10,358,126)</u>
Accumulated Amortization of CIAC	7,927,980	2,497,727	5,430,253

Audit Exhibit ALB-6

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2017

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	8,506,845	6,606,809	1,900,036
Operating Expenses	6,852,116	5,397,540	1,454,576
Net Operating Income Before Taxes	1,654,729	1,209,269	445,460
Less: Annualized Interest Expense	485,009	377,061	107,948
Taxable Income - State	1,169,720	832,208	337,512
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	58,486	41,610	16,876
Less: State Income Taxes Per Books	28,393	21,957	6,436
State Income Tax Adjustment - Accounting and Pro Forma Adjustment #10	30,093	19,653	10,440
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	1,111,234	790,598	320,636
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	233,359	166,026	67,333
Less: Federal Income Taxes Per Books	358,711	277,400	81,311
Federal Income Tax Adjustment - Accounting and Pro Forma Adjustment #11	(125,352)	(111,374)	(13,978)
After Proposed Increase			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	8,951,828	6,948,744	2,003,084
Operating Expenses	6,855,550	5,400,179	1,455,371
Net Operating Income Before Taxes	2,096,278	1,548,565	547,713
Less: Annualized Interest Expense	485,009	377,061	107,948
Taxable Income - State	1,611,269	1,171,504	439,765
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	80,563	58,575	21,988
Less: State Income Taxes After Accounting & Pro Forma Adjustments	58,486	41,610	16,876
State Income Tax Adjustment - Proposed Increase Adjustment #25	22,077	16,965	5,112
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	1,530,706	1,112,929	417,777
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	321,448	233,715	87,733
Less: Federal Income Taxes After Accounting & Pro Forma Adjustments	233,359	166,026	67,333
Federal Income Tax Adjustment - Proposed Increase Adjustment #26	88,089	67,689	20,400

Kiawah Island Utility, Inc.
Cash Working Capital Allowance
For the Test Year Ended December 31, 2017

After Accounting & Pro Forma Adjustments

	Combined	Water	Sewer
Operating Expenses	5,330,121	4,332,491	997,630
Allowable Rate	12.50%	12.50%	12.50%
Computed Cash Working Capital	666,265	541,561	124,704
Less: Cash Working Capital - Application Per Books	0	0	0
ORS Cash Working Capital Adjustment #19	666,265	541,561	124,704

Kiawah Island Utility, Inc.
Computation of Interest Expense
For the Test Year Ended December 31, 2017

Combined Operations

Description	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
	Capital Structure	Ratio	Rate Base	Overall		Income For	Return	Rate Base	Overall		Embedded Cost/Return	Income For
				Cost/Return	Cost/Return				Cost/Return	Cost/Return		
Long-Term Debt Members' Equity	\$ 19,670,000	50.00%	\$ 10,718,550	4.57%	2.29%	\$ 489,838	\$ 973,154	\$ 10,612,894	4.57%	2.29%	\$ 485,009	\$ 973,154
	19,670,000	50.00%	10,718,550	9.08%	4.54%			10,612,894	8.27%	4.14%	877,875	
Totals	\$ 39,340,000	100.00%	21,437,100		6.83%	\$ 1,462,992	\$ 1,462,992	21,225,788		6.43%	\$ 1,362,884	\$ 1,362,884
								21,225,788				1,737,944

Water Operations

Description	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
	Capital Structure	Ratio	Rate Base	Overall		Income For	Return	Rate Base	Overall		Embedded Cost/Return	Income For
				Cost/Return	Cost/Return				Cost/Return	Cost/Return		
Long-Term Debt Members' Equity	\$ 19,670,000	50.00%	\$ 8,320,903	4.57%	2.29%	\$ 380,265	\$ 743,965	\$ 8,250,787	4.57%	2.29%	\$ 377,061	\$ 743,965
	19,670,000	50.00%	8,320,903	8.94%	4.47%			8,250,787	7.57%	3.78%	624,572	
Totals	\$ 39,340,000	100.00%	16,641,805		6.76%	\$ 1,124,230	\$ 1,124,230	16,501,573		6.07%	\$ 1,001,633	\$ 1,001,633
								16,501,573				1,290,450

Sewer Operations

Description	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
	Capital Structure	Ratio	Rate Base	Overall		Income For	Return	Rate Base	Overall		Embedded Cost/Return	Income For
				Cost/Return	Cost/Return				Cost/Return	Cost/Return		
Long-Term Debt Members' Equity	\$ 19,670,000	50.00%	\$ 2,397,648	4.57%	2.29%	\$ 109,573	\$ 229,189	\$ 2,362,108	4.57%	2.29%	\$ 107,948	\$ 229,189
	19,670,000	50.00%	2,397,648	9.56%	4.78%			2,362,108	10.72%	5.36%	253,303	
Totals	\$ 39,340,000	100.00%	4,795,295		7.07%	\$ 338,762	\$ 338,762	4,724,215		7.65%	\$ 361,251	\$ 361,251
								4,724,215				447,494

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Combined Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,973,304	533,541 (1)	8,506,845	826,449 (22)	9,333,294
<u>Total Operating Revenues</u>	<u>7,973,304</u>	<u>533,541</u>	<u>8,506,845</u>	<u>826,449</u>	<u>9,333,294</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,562,259	(232,138) (2)	5,330,121	0	5,330,121
Depreciation & Amortization	695,384	(14,121) (3)	681,263	0	681,263
Amortization Expense - Sludge & Tank Painting	0	68,601 (4)	68,601	0	68,601
Amortization of Water Rights - Impact Fees	47,715	132 (5)	47,847	0	47,847
Utility Regulatory Assessment Fees	0	40,133 (6)	40,133	3,898 (23)	44,031
Property Taxes	297,289	225,455 (7)	522,744	0	522,744
Payroll Taxes	55,767	19,316 (8)	75,083	0	75,083
Other Taxes and Licenses	61,890	24,434 (9)	86,324	2,480 (24)	88,804
State Income Taxes	28,393	30,093 (10)	58,486	41,003 (25)	99,489
Federal Income Taxes	358,711	(125,352) (11)	233,359	163,604 (26)	396,963
Deferred Federal Income Taxes	(567,125)	567,125 (12)	0	0	0
Deferred State Income Taxes	(29,447)	29,447 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,510,836</u>	<u>633,125</u>	<u>7,143,961</u>	<u>210,985</u>	<u>7,354,946</u>
<u>Total Operating Income</u>	<u>1,462,468</u>	<u>(99,584)</u>	<u>1,362,884</u>	<u>615,464</u>	<u>1,978,348</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	524	(524) (14)	0	0	0
Add: Customer Growth	0	0	0	5,898 (27)	5,898
Add: Amortization of Excess Deferred Income Tax	0	0	0	38,640 (28)	38,640
<u>Net Operating Income</u>	<u>1,462,992</u>	<u>(100,108)</u>	<u>1,362,884</u>	<u>660,002</u>	<u>2,022,886</u>
Less: Interest Expense	317,362	167,647 (15)	485,009	0	485,009
<u>Net Income for Margin</u>	<u>1,145,630</u>	<u>(267,755)</u>	<u>877,875</u>	<u>660,002</u>	<u>1,537,877</u>
<u>Operating Margin</u>	<u>14.37%</u>		<u>10.32%</u>		<u>16.48%</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	51,814,468	(94,986) (16)	51,719,482	0	51,719,482
Accumulated Depreciation	(19,448,388)	(949,398) (17)	(20,397,786)	0	(20,397,786)
Net Plant in Service	32,366,080	(1,044,384)	31,321,696	0	31,321,696
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	7,541,327	386,653 (18)	7,927,980	0	7,927,980
Construction Work in Progress	16,424	0	16,424	0	16,424
Cash Working Capital	0	666,265 (19)	666,265	0	666,265
Prepayments (ASR Inv.)	167,807	0	167,807	0	167,807
Accumulated Deferred Income Taxes	(816,452)	(158,270) (20)	(974,722)	0	(974,722)
Excess Deferred Income Tax Liability	(470,064)	(61,576) (21)	(531,640)	0	(531,640)
<u>Total Rate Base</u>	<u>21,437,100</u>	<u>(211,312)</u>	<u>21,225,788</u>	<u>0</u>	<u>21,225,788</u>

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Water Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	6,149,764	457,045 (1)	6,606,809	636,852 (22)	7,243,661
<u>Total Operating Revenues</u>	<u>6,149,764</u>	<u>457,045</u>	<u>6,606,809</u>	<u>636,852</u>	<u>7,243,661</u>
<u>Operating Expenses:</u>					
Operating Expenses	4,413,998	(81,507) (2)	4,332,491	0	4,332,491
Depreciation & Amortization	472,084	(5,917) (3)	466,167	0	466,167
Amortization Expense - Sludge & Tank Painting	0	20,908 (4)	20,908	0	20,908
Amortization of Water Rights - Impact Fees	47,715	132 (5)	47,847	0	47,847
Utility Regulatory Assessment Fees	0	31,169 (6)	31,169	3,004 (23)	34,173
Property Taxes	175,595	227,256 (7)	402,851	0	402,851
Payroll Taxes	32,939	11,410 (8)	44,349	0	44,349
Other Taxes and Licenses	36,556	15,202 (9)	51,758	1,911 (24)	53,669
State Income Taxes	21,957	19,653 (10)	41,610	31,597 (25)	73,207
Federal Income Taxes	277,400	(111,374) (11)	166,026	126,071 (26)	292,097
Deferred Federal Income Taxes	(438,572)	438,572 (12)	0	0	0
Deferred State Income Taxes	(22,772)	22,772 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>5,016,900</u>	<u>588,276</u>	<u>5,605,176</u>	<u>162,583</u>	<u>5,767,759</u>
<u>Total Operating Income</u>	<u>1,132,864</u>	<u>(131,231)</u>	<u>1,001,633</u>	<u>474,269</u>	<u>1,475,902</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	(8,634)	8,634 (14)	0	0	0
Add: Customer Growth	0	0	0	5,045 (27)	5,045
Add: Amortization of Excess Deferred Income Tax	0	0	0	29,881 (28)	29,881
<u>Net Operating Income</u>	<u>1,124,230</u>	<u>(122,597)</u>	<u>1,001,633</u>	<u>509,195</u>	<u>1,510,828</u>
Less: Interest Expense	187,450	189,611 (15)	377,061	0	377,061
<u>Net Income for Margin</u>	<u>936,780</u>	<u>(312,208)</u>	<u>624,572</u>	<u>509,195</u>	<u>1,133,767</u>
<u>Operating Margin</u>	<u>15.23%</u>		<u>9.45%</u>		<u>15.65%</u>
<u>Original Cost Rate Base: Water</u>					
Gross Plant in Service	30,437,390	(86,219) (16)	30,351,171	0	30,351,171
Accumulated Depreciation	(9,483,623)	(556,037) (17)	(10,039,660)	0	(10,039,660)
Net Plant in Service	20,953,767	(642,256)	20,311,511	0	20,311,511
Contributions in Aid of Construction (CIAC)	(5,860,751)	0	(5,860,751)	0	(5,860,751)
Accumulated Amortization of CIAC	2,367,257	130,470 (18)	2,497,727	0	2,497,727
Construction Work in Progress	8,587	0	8,587	0	8,587
Cash Working Capital	0	541,561 (19)	541,561	0	541,561
Prepayments (ASR Inv.)	167,807	0	167,807	0	167,807
Accumulated Deferred Income Taxes	(631,362)	(122,390) (20)	(753,752)	0	(753,752)
Excess Deferred Income Tax Liability	(363,500)	(47,617) (21)	(411,117)	0	(411,117)
<u>Total Rate Base</u>	<u>16,641,805</u>	<u>(140,232)</u>	<u>16,501,573</u>	<u>0</u>	<u>16,501,573</u>

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Sewer Operations

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company Proposed Increase \$	(5) After Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	1,823,540	76,496 (1)	1,900,036	189,597 (22)	2,089,633
<u>Total Operating Revenues</u>	<u>1,823,540</u>	<u>76,496</u>	<u>1,900,036</u>	<u>189,597</u>	<u>2,089,633</u>
<u>Operating Expenses:</u>					
Operating Expenses	1,148,261	(150,631) (2)	997,630	0	997,630
Depreciation & Amortization	223,300	(8,204) (3)	215,096	0	215,096
Amortization Expense - Sludge & Tank Painting	0	47,693 (4)	47,693	0	47,693
Amortization of Water Rights - Impact Fees	0	0 (5)	0	0	0
Utility Regulatory Assessment Fees	0	8,964 (6)	8,964	894 (23)	9,858
Property Taxes	121,694	(1,801) (7)	119,893	0	119,893
Payroll Taxes	22,828	7,906 (8)	30,734	0	30,734
Other Taxes and Licenses	25,334	9,232 (9)	34,566	569 (24)	35,135
State Income Taxes	6,436	10,440 (10)	16,876	9,406 (25)	26,282
Federal Income Taxes	81,311	(13,978) (11)	67,333	37,533 (26)	104,866
Deferred Federal Income Taxes	(128,553)	128,553 (12)	0	0	0
Deferred State Income Taxes	(6,675)	6,675 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>1,493,936</u>	<u>44,849</u>	<u>1,538,785</u>	<u>48,402</u>	<u>1,587,187</u>
<u>Total Operating Income</u>	<u>329,604</u>	<u>31,647</u>	<u>361,251</u>	<u>141,195</u>	<u>502,446</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	9,158	(9,158) (14)	0	0	0
Add: Customer Growth	0	0	0	853 (27)	853
Add: Amortization of Excess Deferred Income Tax	0	0	0	8,759 (28)	8,759
<u>Net Operating Income</u>	<u>338,762</u>	<u>22,489</u>	<u>361,251</u>	<u>150,807</u>	<u>512,058</u>
Less: Interest Expense	129,912	(21,964) (15)	107,948	0	107,948
<u>Net Income for Margin</u>	<u>208,850</u>	<u>44,453</u>	<u>253,303</u>	<u>150,807</u>	<u>404,110</u>
<u>Operating Margin</u>	<u>11.45%</u>		<u>13.33%</u>		<u>19.34%</u>
<u>Original Cost Rate Base: Sewer</u>					
Gross Plant in Service	21,377,078	(8,767) (16)	21,368,311	0	21,368,311
Accumulated Depreciation	(9,964,765)	(393,361) (17)	(10,358,126)	0	(10,358,126)
Net Plant in Service	11,412,313	(402,128)	11,010,185	0	11,010,185
Contributions in Aid of Construction (CIAC)	(11,507,271)	0	(11,507,271)	0	(11,507,271)
Accumulated Amortization of CIAC	5,174,070	256,183 (18)	5,430,253	0	5,430,253
Construction Work in Progress	7,837	0	7,837	0	7,837
Cash Working Capital	0	124,704 (19)	124,704	0	124,704
Prepayments (ASR Inv.)	0	0	0	0	0
Accumulated Deferred Income Taxes	(185,090)	(35,880) (20)	(220,970)	0	(220,970)
Excess Deferred Income Tax Liability	(106,564)	(13,959) (21)	(120,523)	0	(120,523)
<u>Total Rate Base</u>	<u>4,795,295</u>	<u>(71,080)</u>	<u>4,724,215</u>	<u>0</u>	<u>4,724,215</u>